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ILLUMINA, INC. and VERINATA HEALTH, INC.

**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION**

VERINATA HEALTH, INC.,  
and

THE BOARD OF TRUSTEES OF THE  
LELAND STANFORD JUNIOR  
UNIVERSITY

Plaintiffs and  
Counterclaim-Defendants,

v.

ARIOSIA DIAGNOSTICS, INC.,  
and

LABORATORY CORPORATION OF  
AMERICA HOLDINGS,

Defendants and  
Counterclaim-Plaintiffs.

ILLUMINA, INC.,

Plaintiff,

v.

ARIOSIA DIAGNOSTICS, INC.,  
Defendant.

Case No. 3:12-cv-05501-SI (consolidated  
with Case No. 3:14-cv-01921-SI and Case  
No. 3:15-cv-02216-SI)

**PLAINTIFFS ILLUMINA, INC. AND  
VERINATA HEALTH, INC.'S  
OPPOSITION TO DEFENDANT  
ARIOSIA DIAGNOSTICS, INC.'S  
MOTION TO PRECLUDE THE  
TESTIMONY OF MR. JAMES E.  
MALACKOWSKI RE: LOST TEST  
FEES**

Judge: Hon. Susan Illston

1 ILLUMINA, INC.,

2 Plaintiff,

3 v.

4 ARIOSIA DIAGNOSTICS, INC., AND  
5 ROCHE MOLECULAR SYSTEMS, INC.,

6 Defendants.

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1 **I. INTRODUCTION**

2 Defendant Ariosa Diagnostics, Inc.’s (“Ariosa”) motion to preclude the testimony of Mr.  
3 Malackowski concerning Illumina Inc.’s (“Illumina”) lost test fees fails on both the facts and the  
4 law. The Federal Circuit’s opinion in *Warsaw Orthopedic, Inc. v. NuVasive, Inc.* (“*Warsaw*”) does not prohibit recovery of lost royalties. 778 F.3d 1365 (Fed. Cir. 2015). Even if it did, the  
5 holding would not apply: Illumina’s lost test fees are lost revenues from the sale of products and  
6 services—not “royalties.” Dr. Bird’s and Dr. Naclerio’s testimony do not establish otherwise, and  
7 another witness on this subject matter—Jeff Eidel—has not yet been heard. Ariosa’s motion  
8 should therefore be denied.  
9

10 **II. ARGUMENT**

11 **A. *Warsaw* Does Not Prohibit The Recovery Of Lost “Royalties”**

12 Ariosa argues that the Federal Circuit’s opinion in *Warsaw* prohibits Illumina from  
13 recovering “lost royalty payments” because “lost profits must come from the lost sales of a  
14 product or service the patentee itself was selling.” D.I. 583 at 1. Setting aside for the moment  
15 Ariosa’s misdescription of Illumina’s lost test fees as “royalties,” Ariosa misperceives the *Warsaw*  
16 case. Nowhere in *Warsaw* did the Federal Circuit hold that lost royalties are never recoverable as  
17 lost profits. The issue in *Warsaw* was much more focused—namely, the recoverability of  
18 royalties from the plaintiff’s *related entities*. *Warsaw*, 778 F.3d at 1376. This is especially  
19 evident given *Warsaw*’s reliance on *Poly-America v. GSE Lining Tech., Inc.*, which likewise  
20 limited its holding to the recoverability of profits lost by sister entities. 383 F.3d 1303 (Fed. Cir.  
21 2004).

22 Here, Illumina’s lost test fees are not from related entities—they are entirely from third  
23 parties pursuant to a well-developed licensing program. Ariosa does not dispute this. *Warsaw*  
24 and *Poly-America* are therefore inapposite.

25 Ariosa neglects the most direct authority. The Federal Circuit has expressly held that, in  
26 the context of a well-developed licensing program, a plaintiff as part of its lost profits recovery “is  
27 entitled to receive lost royalties (on amounts [plaintiff’s] licensees would have paid ‘but for’ the  
28

infringement).” *BIC Leisure Prods., Inc. v. Windsurfing Int’l, Inc.*, 1 F.3d 1214, 1219-20 (Fed. Cir. 1993); *see also Nat’l Res. Labs. v. Eppert Oil Co.*, 104 F. Supp.2d 851, 860-61 (S.D. Oh. 2000) (finding that plaintiff could recover lost royalties as lost profits based on license agreement with party losing sales).

The *Warsaw* panel would be incapable of overturning *BIC Leisure Prods.*, even if that were what it purported to do. *See Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 777 n.4 (Fed. Cir. 1988) (“The rule of the Federal Circuit is that we are bound by our prior decisions until they are overruled by a majority of the active judges sitting *in banc*.”).<sup>1</sup> *BIC Leisure Prods.* forecloses Ariosa’s requested relief.

#### **B. Plaintiffs’ Lost Test Fees Are Not “Royalties”**

Even if *Warsaw* were to apply, Illumina’s lost profits are not precluded because they are lost test fees under equipment supply agreements that are part and parcel of the sale of products. The agreements themselves state exactly that:

*In consideration for the negotiated discounts on Supplied Products and Services provided in Exhibit A* and the right to use Supplied Products for NIPT Use under Core IP, Customer agrees to pay Illumine a fee for each NIPT test performed by Customer, its Affiliates, Joint Ventures, or Business Units and reported to a patient, doctor, other authorized person or referring laboratory, wherein the data for the NIPT test result was generated, in whole or in part, *through Customer’s use of any Supplied Product or Existing Hardware* (“NIPT Test Fee”).

*See* Trial Ex. 670 [Quest Supply Agreement] at § 4.5(a) (emphasis added).

Dr. Bird’s testimony does not establish otherwise. The excerpted testimony Ariosa identifies conveys a prospective licensing opportunity that Dr. Bird proposed to Illumina before it even acquired Verinata—it in no way demonstrates how Illumina actually structured any of its

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<sup>1</sup> *Rite-Hite Corp. v. Kelley Co.* did not overrule *BIC Leisure Prods.* either. 56 F.3d 1538 (Fed. Cir. 1995). That case addressed whether patentees that are not practicing a patent can still recover lost profits. *Id.* at 1549-50. It held that they could. *Id.* It did not address whether lost royalties can be recovered as lost profits, which is the facts of *BIC Leisure Prods.* That is why the court in *Nat’l Res. Labs* also allowed the recovery of lost royalties as lost profits after *BIC Leisure Prods.* and *Rite-Hite*.

1 supply agreements with third parties. *See* Trial Tr. (1/9/18) at 225:9-17 (testifying that the royalty  
2 opportunity conveyed in Trial Ex. 248 reflects Verinata’s pre-acquisition proposal to Illumina).

3 Ariosa similarly presents Dr. Naclerio’s trial testimony wholly out of context. Illumina  
4 was attempting to elicit from Dr. Naclerio the type of royalty structure that Illumina would have  
5 requested in a hypothetical negotiation for the ’794 Patent, a critical element for the jury to  
6 compute reasonable royalties for Ariosa’s infringement. *See* Trial Tr. (1/10/18) at 458:12-15 (“Q.  
7 Now, when Ariosa first launched the Harmony™ test in 2012, *if you had been licensing the ’794*  
8 *patent*—just accept that assumption—*what is the type of royalty structure that you would have*  
9 *expected?*”). Upon Ariosa’s objection to this question, Illumina re-framed it to discuss the  
10 structure of Illumina’s current supply agreements. But the context of the hypothetical negotiation  
11 was clear. Moreover, in response to counsel’s question, at no point did Dr. Naclerio characterize  
12 Illumina’s test fees as royalties. To the contrary, as the testimony Ariosa excerpts makes clear, Dr.  
13 Naclerio testified that a “royalty based on sales” was the “*alternative*” structure that Illumina *did*  
14 *not* pursue. Trial Tr. (1/10/18) at 459:2-4. Thus, none of the “evidence” Ariosa identifies justifies  
15 exclusion of Mr. Malackowski’s opinions, even if *Warsaw* limited the type of damages Illumina  
16 can recover.<sup>2</sup>

### 17 **C. Ariosa’s Motion Is Premature Because Not All The Evidence Has Been Heard**

18 Even if it did have merit, Ariosa’s motion should be denied as premature because  
19 testimony from Jeff Eidel is expected to confirm that Illumina’s test fees represent fees for access  
20 to equipment and consumables and a right to use the products it sells in particular ways. Mr. Eidel  
21 is Vice President for Corporate Development at Illumina and has been highly involved in  
22 negotiating supply agreements with Illumina’s customers in the NIPT space for the sale of  
23 sequencing equipment and reagents. Mr. Eidel knows well what Illumina’s test fees represent and  
24 therefore should be heard on this issue.

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28 <sup>2</sup> Ariosa’s citation to Mr. Reines’ attorney argument is not evidence and places too much emphasis  
on semantics.

1 **III. CONCLUSION**

2 Ariosa's motion should be denied. *Warsaw* does not restrict lost profits to the exclusion of  
3 lost royalties, and *BIC Leisure Prods.* confirms the availability of such lost royalties. Even if  
4 *Warsaw* did apply, Ariosa's evidence falls flat.

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6 Dated: January 15, 2018

Respectfully submitted,

7  
8 WEIL, GOTSHAL & MANGES LLP

9 By: /s/ Edward R. Reines  
Edward R. Reines

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11 *Attorneys for Plaintiffs and Counterclaim Defendants*  
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